

## Message Text

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C O N F I D E N T I A L CARACAS 1604

E.O. 11652 GDS

TAGS: ENRG, VE, OVIP (ZARB, FRANK G.)

SUBJECT: OIL ISSUES THAT MAY BE RAISED IN ZARB DINNER WITH  
VALENTIN HERNANDEZ

REF: CARACAS 1098

1. BEGIN SUMMARY: MINES AND HYDROCARBONS MINISTER VALENTIN HERNANDEZ CAN BE EXPECTED AT THE DINNER SCHEDULED FOR FEBRUARY 15 TO RAISE WITH FEA DIRECTOR ZARB GOV'S CONTINUING CONCERN OVER U.S. "DISCRIMINATION" IN FAVOR OF CRUDE OIL IMPORTS TO DETRIMENT OF PRODUCT IMPORTS FROM VENEZUELA. HERNANDEZ MAY ALSO RAISE QUESTIONS ABOUT REGULATIONS WHICH MINES MINISTRY OFFICIAL ALLEGES RESTRICTS VENEZUELAN PRODUCT EXPORTS TO PUERTO RICO. ENTITLEMENTS PROGRAM, WHICH FAVORS AMERADA HESS VIRGIN ISLANDS REFINERY, WILL ALMOST CERTAINLY COME UP. END SUMMARY.

2. AN ARTICLE PUBLISHED IN THE CARACAS PRESS ON JANUARY 29 CLAIMED THE USG ENERGY POLICY CONTINUES TO DISCRIMINATE AGAINST VENEZUELAN OIL. THE ARTICLE APPEARED TO REFLECT A BACKGROUND BRIEFING GIVEN THE NEWSPAPER BY GOV AUTHORITIES  
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AND WAS SUBTITLED "FEA PROMISED TO ELIMINATE DOMESTIC OIL

PRICE CONTROLS, WHICH WOULD FAVOR VENEZUELAN IMPORTS." THE ARTICLE ALLEGED THAT VALENTIN HERMANDEZ, MINISTER OF STATE MANUEL PEREZ GUERRERO AND VENEZUELAN AMBASSADOR BURELLI RIVAS, HAD ALL REPEATEDLY PRIVATELY COMPLAINED ABOUT "NEW DISCRIMINATORY TREATMENT." THE REPLY OF USG OFFICIALS HAD PURPORTEDLY BEEN THAT THE PROBLEM WOULD BE RESOLVED WHEN DOMESTIC OIL PRICES WERE DECONTROLLED. WHILE THIS WAS THE INITIAL INTENTION OF THE USG, THE LAW SIGNED BY PRESIDENT FORD ON DECEMBER 22, 1975, WILL CONTINUE THE CONTROLS FOR FORTY MONTHS, THE ARTICLE ADDS. NEVERTHELESS, THE ARTICLE CONTINUES, VENEZUELAN EMBASSY OFFICIALS IN WASHINGTON HAVE HEARD THAT THE FEA IS "DISPOSED TO CORRECT" THIS SYSTEM THAT NOT ONLY PREJUDICES VENEZUELA, BUT ALSO U.S. IMPORTERS OF VENEZUELAN RESIDUAL FUELS SUCH AS EXXON AND ASIATIC PETROLEUM COMPANY. THE ARTICLE ASSERTS THAT PERHAPS IT WILL BE POSSIBLE TO CORRECT THE SITUATION NOW THAT AN ACCORD EXISTS BETWEEN CONGRESS AND THE EXECUTIVE BRANCH TO "STABILIZE" U.S. ENERGY POLICY.

3. RECENT PETROLEUM INTELLIGENCE WEEKLY ARTICLES, WHICH ARE CLOSELY STUDIED BY THE GOV, HAVE POINTED OUT THE NEGATIVE EFFECT THAT THE ELIMINATION OF THE SUPPLEMENTAL \$2 PER BARREL FEE ON IMPORTED CRUDE HAS HAD ON VENEZUELAN FUEL OIL SHIPMENTS. AN ARTICLE IN THE DECEMBER 29 ISSUE ESTIMATED THAT THE "SUBSIDY" IN FAVOR OF CRUDE OIL IMPORTS IS NOW IN THE RANGE OF DOLS 2.50 PER BARREL. FELIZ ROSSI GUERRERO, THE VENEZUELAN PETROLEUM COUNSELOR IN WASHINGTON, WAS QUOTED IN THE SAME ARTICLE AS SAYING THAT THIS ISSUE FIGURED IN OIL PRICE NEGOTIATIONS WITH THE FORMER CONCESSIONAIRES WITH RESPECT TO OFFTAKE CONTRACTS. HE REPORTEDLY SAID "WE REALIZE WE HAVE LOST MARKETS MUCH MORE FROM THESE DISCREPANCIES THAN BECAUSE OF PRICE AS SUCH." AN ARTICLE IN THE PTW ISSUE OF JANUARY 12 REPORTS THAT U.S. FUEL OIL IMPORTS FROM VENEZUELA HAVE DROPPED 89 PERCENT SINCE LAST AUGUST TO A CURRENT LEVEL OF 70,000 B/D. THE ARTICLE SPECULATES THAT WASHINGTON MAY EXTEND A "SUBSIDY" TO IMPORTED FUEL OIL FROM OFFSHORE REFINERIES, BUT IS MORE LIKELY TO REDUCE THE ADVANTAGE NOW ENJOYED BY AMERADA HESS IN THE VIRGIN ISLANDS.

4. THIS LATTER REPORT MAY HAVE PROMPTED RUMORS HERE THAT THE USG IS CONSIDERING SOME FORM OF SUBSIDY FOR VENEZUELA. VALENTIN HERNANDEZ IS LIKELY TO PURSUE THE SUBJECT OF ALLEGED CONFIDENTIAL

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DISCRIMINATION. WHILE EXPORT SALES HAVE NOW MOVED UP TO ABOUT 1,750,000 B/D FROM THE YEAR-BEGINNING FIGURE OF UNDER 1.5 MILLION, FUEL OIL EXPORTS ARE STILL DEPRESSED AND THE GOV IS TRYING TO PLACE AT LEAST ANOTHER 200,000 B/D IN ORDER TO MEET ITS 1976 BUDGET TARGET.

5. ANOTHER SUBJECT HE MAY RAISE IS ACCESS TO THE PUERTO RICAN MARKET FOR PRODUCTS. AS REPORTED IN REFTTEL, THE MINES MINISTRY

HAS RECEIVED AN INQUIRY FROM THE COMMONWEALTH GOVERNMENT FOR JP-4 AND JP-5, BUT IS RELUCTANT TO RESPOND BECAUSE OF AN ASSUMPTION THAT PUERTO RICO MAY NOT FREELY IMPORT SUCH PRODUCTS. A CLARIFICATION OF THE SITUATION MAY BE IN ORDER.

6. IN ADDITION TO THE INCREASED DISADVANTAGE VENEZUELAN FUEL OIL MUST CONFRONT FOLLOWING THE ELIMINATION OF THE SUPPLEMENTAL FEE ON CRUDE IMPORTS, HERNANDEZ CAN BE EXPECTED TO CONTINUE TO ZERO IN ON THE ENTITLEMENTS PROGRAM WHICH BENEFITS AMERADA HESS. ACCORDING TO THE PIW JANUARY 12 ARTICLE, THE VIRGIN ISLANDS REFINERY HAS DOUBLED ITS SHARE OF THE FUEL OIL SUPPLY MARKET FROM THE CARIBBEAN REGION OVER THE PAST TWO YEARS AND NOW ACCOUNTS FOR 34 PERCENT OF THIS PRODUCT MOVING TO THE U.S. FROM THE AREA. HERNANDEZ WILL WISH TO KNOW THE STATUS OF THE ENTITLEMENTS PROGRAM IN ORDER TO PLAN MARKETING STRATEGY FOR THE FUTURE.

7. VENEZUELA'S TOTAL COMMITMENT TO OPEC PRICING POLICIES HAS BEEN FULLY DOCUMENTED. IF ANYTHING, THE VENEZUELAN'S ARE MORE COMMITTED THAN EVER TO HOLDING THE OPEC PRICE LINE AS A DEFENSIVE MEASURE AGAINST FURTHER ENCROACHMENT OF MIDDLE EAST AND AFRICAN OIL INTO WHAT THE GOV REGARDS AS ITS TRADITIONAL MARKETS.  
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